

Reconstituting the US Social Safety Net
A Radical Simplification of the US Social Safety Net

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On average, Americans enjoy one of the highest levels of income in the world, ranking among the top 10 countries.¹ But income is not evenly distributed and each year, between 10-15% of the US population are defined as in poverty, depending on business conditions and the economic cycle.²

The US Social Safety Net

The US social safety net in the US involves many programs and agencies reflecting both their historical piecemeal development and the US federal structure involving national, state, and municipal governments.

The US, like many countries, defines a “poverty threshold” below which the provision of essential food, clothing, and shelter is at risk. The US calculation, performed by the Census Department, is updated annually, and adjusts for household size. In 2019, about half those in the US under the poverty threshold were Black or Hispanic. About 31% were under the age of 18; another 13% were over the age of 65. Nearly 90% were citizens.³ Slightly more than half of poor families in 2019 were ones with a female householder and no spouse present.⁴ There is a disproportionate concentration in the South. Not surprisingly, poor adults of working age are under-employed. Among adults below the age of 65, 12% work full time year-round. A quarter report working part-time year-round. More than 60% report being unemployed at least one week during 2019.⁵

Problems of the poor have only been exacerbated by the COVID-19 pandemic.

In the US, the poverty threshold is used to establish a “poverty guideline” which is combined with other criteria in the administration of anti-poverty programs operated by various US government departments. These include the Department of Agriculture (Supplemental Nutrition Assistance

¹ See e.g.: World Bank, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>; Also: WorldData.info, <https://www.worlddata.info/average-income.php>

² Jessica Semega, Melissa Kollar, Emily A. Shrider, and John F. Creamer, *Income and Poverty in the US: 2019*, United States Census Bureau (September 2020) Figure 7 p. 12.

³ *Op. cit.*, B-1 p. 57

⁴ US Census, *Current Population Survey, 1960 to 2020 Annual Social and Economic Supplement*, Table 13

⁵ *Ibid.*

Program, National School Lunch Program, Child and Adult Care Food Program), the Department of Energy (Weatherization Assistance for Low-Income Persons), the Department of Health and Human Services (Community Services Block Grant, Head Start, Low-Income Home Energy Assistance), and the Department of Labor (Job Corps, National Farmworker Jobs Program, Workforce Investment Act Youth Activities). There are other means tested programs that do not use the poverty guideline, including Supplemental Security Income, and the Social Services Block Grant.⁶

These programs are supplemented by Medicaid, the Children's Health Insurance Program (CHIP), and assistance under the Affordable Care Act, which subsidize health care costs for poor people. In addition, low wage workers benefit from the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC), which refunds tax payments and can provide additional income in certain cases. More than half the states have state based EITC equivalents.

Temporary aid is also provided by the Temporary Assistance to Needy Families (TANF) program, which replaced the Aid for Families with Dependent Children. TANF provides time limited support to families with householders out of work to help in workforce transition.

Beyond the Supplemental Nutrition Assistance Program (SNAP, successor to Food Stamps), further food assistance is provided by the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Disabled workers can receive assistance through Supplemental Security Income (SSI).

State aid programs and local government initiatives provide additional help.

Administrative Costs of Balkanized Programming

While overall, administrative overheads are not large, in many cases, the costs are material.

"Administrative costs equal about 1% of the total program costs of EITC, and ACTC programs; about 10% of total costs in the food stamp program⁷; about 5% of total program costs in Medicaid; about 9% of total program costs in CHIP; about 8% of total program costs in the national lunch program; about 30% of total costs in Women, Infants, and Children (WIC) programs; about 6% of the total program costs in HUD Section 8 and Public Housing Programs and about 6% in the Supplemental Security Income (SSI) program. These programs make up about 80% of total means-tested welfare spending."⁸

While it is broadly acknowledged that this array of programs does substantially reduce the effective poverty rate, the vast array of separate and separated agencies and programs, often covering overlapping concerns, each operating with its own organizational infrastructure, does not aid in administrative efficiency.

⁶ Institute for Research on Poverty, "What are Poverty Thresholds and Poverty Guidelines," <https://www.irp.wisc.edu/resources/what-are-poverty-thresholds-and-poverty-guidelines/>

⁷ Here, the term "food stamps" refers to SNAP

⁸ Robert Rector and Vijay Menon, "Understanding the Hidden \$1.1 Trillion Welfare System and How to Reform It," Heritage Foundation (April 5, 2018)

Social Security as an Anti-Poverty Program

Perhaps the most effective anti-poverty program in the United States is one that does not exist explicitly as such, but rather is a government operated pension plan, Social Security. The poverty rate among the elderly was approximately 50% prior to the passage of Social Security in 1935. By the year 2000 it was around 10% but without Social Security, in 2000 it would be 43.5%.⁹ Judged by its impact on the poverty rate on its target population Social Security has not only be successful but is probably the most successful anti-poverty government program ever developed and implemented in the US.

Social Security is not only a successful program, but also broadly popular. In an AARP poll published August 14, 2020, 90% of respondents reported broad support for the program. While there are frequent proposals to modify the system, rarely is there a proposal to eliminate or replace it. Even though Social Security payments are \$1.0 Trillion (23% of the federal budget), Social Security does not face the same criticisms of conservative politicians as other social welfare spending. The broad popularity of Social Security has led to it being referred to as “the 3rd rail of American politics.”

Social Security can be contrasted with the other major anti-poverty government programs. Like Social Security these have been broadly effective in reducing the poverty rate. Using the Supplemental Poverty Measure which includes certain non-cash benefit payments as income but also deducts out of pocket medical expenses, Social Security reduces the proportion of the US elderly population in poverty from 21.2% to 12.8%.¹⁰

Despite their success, anti-poverty programs generally do not share the popularity of Social Security. 77% of Americans call the war on poverty ineffective. [You/Gov / Cato Institute], 50% of Americans believe government programs have made things worse or had no impact on the poor [AEI/Los Angeles Times]. While anti-poverty programs consume less than 8% of the federal budget, they consume significant attention in budget negotiations especially when compared to the larger social security program.

Useful Characteristics of Social Security

There are a number of characteristics of the Social Security Program that support its popularity and could be useful in the construction of a more comprehensive and efficient social safety net.

1. Universal Program

Social Security is a universal program covering nearly all US taxpayers. While some of these benefits will be significantly less than what was paid into the system, everyone benefits. In the private market individuals buy insurance for the peace of mind it provides. This fallback has a cost and based on the popularity of the Social Security System almost all participants have judged the benefits of social security to be worth the potential cost.

⁹ Benjamin Veghte, National Academy of Social Insurance (August 13, 2015), “Social Security’s Past, Present, and Future”

¹⁰ Kathlyn Romig, “Social Security Lifts More Americans Above Poverty Than Any Other Program,” Center on Budget and Policy Priorities (February 20, 2020)

2. No Benefit Phase out

There is no means testing in Social Security. The benefits are formula driven and the formula does not depend on the recipient's current financial means. As a result, Social Security is not burdened with extraneous administrative functions nor does not produce large increases in marginal tax rates as the recipient's income or assets increase. Large marginal increase in tax rates, present in many anti-poverty programs, create a large disincentive to work.

3. Efficient

Separating out benefits, the true costs of a social safety net system are administrative. The administrative expenses of Social Security excluding disability income represent 0.4% of total expenditures. This compares to administrative costs of between 1% and 30% of expenditures for various anti-poverty programs.

4. Benefits delivered in Cash

Social Security Benefits are delivered in cash with no restrictions on how the beneficiary can use the funds, leaving beneficiaries free to use the cash to make their claim on current or future production based on their own utility maximization. Many of the anti-poverty programs require the funds be used in a specific manner, either for education, housing or supplemental nutrition with the beneficiaries not having the flexibility to reallocate based upon their specific conditions, resources, goals, and requirements.

The delivery of unrestricted cash benefits was the method chosen in the COVID relief packages vs. increases in any allocation to the war on poverty program. This method of unrestricted aid delivery gained broader support than the more restrictive programs.

5. Benefits are formula driven

A participant receives social security based on a benefits formula that is derived from past contributions. There are no financial qualifications to benefits, no income determination, asset determination or any subjective judgement. It is not necessary for a participant to re-arrange finances to benefit or to be careful in planning finances to avoid the risk of losing benefits. There is generally no need to hire an attorney or seek out an advocate to assist in navigating the program; a participant qualifies by simply meeting the 40 quarters of covered earnings requirement. The lack of a requirement to demonstrate hardship, the lack of an administrator that to pass judgement on hardship and the view of Social Security as something earned preserves the dignity of the participants in the program leading to its broader acceptance and popularity.

In comparison, the US social safety net amalgam (it isn't really a coherent system) is comprised of over 90 programs. These programs all have different income limits, different limits on what the funds can be used for, are targeted to different populations and have unique methods for accessing benefits and are administered by different agencies and levels of the government.

6. Supports economic growth

In a market-based system, producers respond to material demands that are made effective via cash expenditure. Redistribution associated with transfer payment programs like Social Security can increase

effective demand because beneficiaries tend to spend a greater than average proportion of their income. This induced increase in effective demand stimulates increased production with further positive feedback effects on income and output.

This output enhancing feature is generally present in social safety net transfer payments so long as the programs are administered with a high degree of efficiency. An illustration is provided by the SNAP (food stamp) program which is politically successful because the economic effects of the transfer payments bind together the interests of beneficiaries and suppliers. Farmers benefit when more people can afford food. Because Social Security has no restrictions on expenditures, these growth benefits are generalized.

Areas targeted by anti-poverty programs are frequently described as fresh food deserts, pharmacy deserts, places of substandard housing, poor education, high crime and lack of adequate medical care. The lack of economic resources available to these communities demonstrates that the amount of production that these communities can claim is insufficient to stimulate production to satisfy many needs because they are unsupported by cash. Providing resources to these communities to make a claim on production can result in an increase in overall income and output. The presence today of unemployed, under-employed, and discouraged workers as well as underused plant capacity all suggest the existence of an unrealized growth potential that could be activated if effective demand could be enhanced.

There are limits to the ability of the redistribution of cash to stimulate the economy. Increasing redistribution reduces the incentive of those that produce to benefit from their efforts. Therefore, any increase in taxes to support redistribution and stimulate production will also have a disincentive impact to produce reducing the amount of production to which a claim can be made. Because there are offsetting impacts to tax financed transfer payments, efficiency and effectiveness are of substantial importance.

Social Safety Net Transfers and Work Disincentives

Transfer payments embed potential work disincentives. Their structure, however, either mitigates or aggravates these disincentives. The ideal structure minimizes the disincentives while realizing the goals of health, security, development, and social stability a social safety net can bring to vulnerable populations. In the US, the populations in poverty are comprised substantially of single mothers, their children, the elderly, and the disabled.

The current fragmented system of historically evolved but ill-coordinated US social safety net programs, with low set income threshold cut-offs and shock marginal tax rates exacerbate work disincentives.

A well-coordinated transfer payment system can reduce work disincentives and provide a financial floor to keep the vulnerable out of poverty. In combination with an appropriate minimum wage, benefits of work can be maintained and work disincentives minimized.

Towards a More Efficient and Effective US Social Safety Net

The United States has unwittingly been involved in a 50-year experiment on how best to reduce poverty and stimulate the economy either through the simple universal program of social security or the more complex mean tested programs. The results are clear, the universal program of social security is more effective in reducing poverty and stimulating production that grows the economy. Given the results of this experiment it seems that policymakers should seek to change the design of the current means tested

programs to the better program design of social security. The following proposal should serve as a useful starting point for discussion.

- Amend social security to provide a cash benefit to all US citizens of \$625/month. This would result in a transfer of \$2.4Trillion. The \$625/month would provide a family of 4 a guaranteed income of \$30,000 compared to a federal poverty rate of \$25,701. We will refer to this as social security part B and the current old age survivors' program as social security part A.
- The \$2.4Trillion would be a taxable benefit; at a 20% tax rate \$480MM would be clawed back in federal income taxes.
- Implement a Carbon tax. Taxing greenhouse gases (GHGs) disincentivizes their emission and incentivizes alternative technologies. A \$50/metric ton carbon dioxide equivalent emissions tax represents a reasonable estimate of the unremediated social costs of GHG emissions and should raise approximately \$300BN.¹¹ This is a more simplified and more market-based approach to managing climate change than current programs that rely primarily on regulation.
- Remove tax limitations that result in lower marginal tax rates for higher earners. There are currently 2 significant tax breaks that result in higher earners paying lower marginal tax brackets than lower earners: i) the cap on earnings subject to social security and, ii) the reduction in tax rates for capital gain. Equalizing the tax rates for earned income and investment income would raise approximately \$150BN. Removing the social security cap on the employee share of social security taxes would raise another \$50BN. As suggested by the Social Security Chief Actuary this can be offset by adding a 4th bend point of 3%.¹²
- Eliminate current anti-poverty transfer payment programs made redundant by the above proposal would save \$350BN.
- Integrate the benefit with the current social security system. The maximum benefit for social security is 3 times the current poverty rate for an individual and the average is 1.5 times the poverty rate for an individual. Currently 9% of seniors live in poverty. A reduction in social security part B equal to 20% of social security part A would increase the maximum benefit by \$300 but increase the average benefit by \$3,900 annually, significantly reducing the poverty rate among seniors. This would reduce the cost of the program by \$200BN.

¹¹ For US Greenhouse Gas emissions see: United States Environmental Protection Agency, "Greenhouse Gas Emissions—Inventory of Greenhouse Gas Emissions and Sinks," <https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks>. The EPA reports in 2018, US GHG emissions totaled 6.677 billion metric tons CO₂ equivalents and 5.9 billion metric tons CO₂. For social cost estimates, see: Interagency Working Group on Social Cost of Greenhouse Gases, "Technical Support Document: Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866," US Government (August 2016). Table ES-1 shows a projected 2020 social cost of \$2007 42 per metric ton carbon dioxide using a cost discounting factor of 3% per annum. This would be approximately \$50 per metric ton in current dollars. The social cost estimate averages the forecasts of 3 Integrated Assessment climate Models (IAMs). The average constant 30-year maturity US Treasury interest rate since the start of the century is a bit less than 4%. The average over the last 10 years is a bit less than 3%. The current rate is about 1.75% and is unlikely to rise much in the near future. A 3% discount appears to be reasonable.

¹² Congressional Research Service, September 2, 2020, "Social Security: Raising or Eliminating the Taxable Earnings Base

- This would leave a shortfall of approximately 3% of GDP. This could be funded by either an across the board 3% tax increase or a VAT tax. If funded by a tax increase a family of 4 making less than \$800,000 would receive more in cash benefits than the family paid in additional income taxes.

As discussed above, cash represents a claim on the goods and services produced by the economy. A \$1.7 Trillion dollar stimulus (Gross amount of \$2.4BN less tax clawback of 480BN and social security offset of \$200MM) can make claims for these additional goods and services only if the economy can produce a greater level of good and services. If not then the additional demand for what is produced will result in price increases (inflation) to bring demand and production back in balance. As of 9/30/2021 US Gross Domestic Product was estimated as 21.1Trillion. The output gap was estimated to be 3.48%. The output gap is the estimate of the difference in the amount the economy currently produces and what the economy could produce given its existing plant and employment capacities. This translates into an output gap of \$730BN. Assuming a potential for a 3% growth rate as a result of the stimulus of social security part B, a 3-to 4-year phase in of the program should enable growth in production to keep up with growth in demand mitigating the risk of the program setting off an inflationary spiral.